STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION	)	
On Its Own Motion	)	
	)	
vs.	)	
	)	
	)	**Docket 00-0714**
ILLINOIS POWER COMPANY	)	
	)	
Reconciliation of revenues collected under	)	
gas adjustment charges with actual costs	)	
prudently incurred.	)	

ILLINOIS POWER COMPANY'S BRIEF IN REPLY TO EXCEPTIONS TO THE PROPOSED ORDER

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CONTENTS

Illinois Power Company ("Illinois Power", "IP" or "Company") submits this Brief in Reply to Exceptions in response to the Brief on Exceptions ("BOE") filed by the Commission Staff. For the reasons shown herein, Staff's exceptions to the Proposed Order ("PO") should be rejected.

I. ASSUMING THE COMMISSION FINDS ILLINOIS POWER'S RETIREMENT OF THE FREEBURG PROPANE PLANT TO BE IMPRUDENT, THE DISALLOWANCE AMOUNT IN THE PROPOSED ORDER IS CORRECT

The PO concludes that Illinois Power's decision to retire the Freeburg propane plant in April 2000 was imprudent. (PO, §IV.B.4) In its Brief on Exceptions, IP demonstrated that this conclusion should be changed in the final order. (IP BOE, §II) The PO also concludes that the amount of the disallowance that should be imposed as a result is $955,000, representing the cost of purchasing pipeline firm transportation ("FT") capacity for nine months (i.e., April through December) in 2000. Staff takes exception to the latter conclusion, contending instead that the disallowance amount is $1,273,000. (Staff BOE, §I) As shown in IP's BOE, the decision to retire the Freeburg facility in April 2000 was prudent, and there should be no disallowance. However, if the Commission were to agree with the PO that the decision to retire the Freeburg facility was imprudent, then the disallowance amount found by the PO should not be disturbed. Staff's proposal to increase the disallowance amount should be rejected.

Staff seeks to impose an additional disallowance beyond that found by the PO based solely on speculation, asserting that "IP never indicated when it signed the replacement supply contract for the Freeburg facility." (Staff BOE, pp. 2-3) Staff assumes, incorrectly, that there was in fact a specific replacement supply contract for the Freeburg facility. As IP witness Frank Starbody explained in IP's direct testimony, IP

plans its overall supply and transportation portfolio to have sufficient supply to meet requirements on a peak day, i.e., the load expected in weather conditions equivalent to the coldest in the previous twenty years. (IP Ex. 3.1, p. 4) Procurement of adequate supply and transportation capacity for this purpose is done on a winter season basis, i.e., November through March. (See id., pp. 4-5; Staff Cross Ex. 5) IP did not retire the Freeburg propane plant until April 2000, a fact that Staff does not dispute. (IP Ex. 3.6, pp. 9, 15) The Freeburg plant was available for service in the winter of 1999-2000, another fact Staff does not dispute. (IP Ex. 3.1, 6; IP Ex. 3.6, p. 15) Accordingly, as Mr. Starbody explained, IP did not begin to incur replacement FT costs for the Freeburg plant until April 2000.[1] (IP Ex. 3.6, p. 15) Thus, contrary to Staff's assertion (Staff BOE, p. 2), Illinois Power **did** demonstrate when it began to incur replacement FT costs for the Freeburg propane plant.

The source of any confusion on this issue is Staff, not the Company. The source of the $1,273,000 figure promoted by Staff is the Company's response to an unfocused data request from Staff. The data request Staff posed asked: ". . . what was the peak day capacity of the retired propane plant? Provide the annual fixed cost to reserve the same amount of supply capacity to serve IP's system?" (Tr. 32-33) In response, IP stated that $1,273,000 was the annual fixed cost to reserve 20,000 MMBtu of FT capacity. (Tr. 33-34) Thus, IP accurately answered the question posed by Staff; but Staff used the cost

[1] In fact, because supply planning and acquisition decisions are made on a winter season basis (November through March), and the propane plant was only used during the winter months, as a peaking facility (Rev. IP Ex. 3.2, p. 4; IP Ex. 3.6, p. 13), IP did not really "replace" the capacity of the propane plant until November 2000, even though it was retired in April 2000, because the propane plant never would have been used between April and November. Thus one could easily conclude that only two months of replacement FT costs (November and December) would have been incurred in 2000.

figure that was supplied as its proposed disallowance, without considering that the propane plant was in service for the first three months of the 2000 reconciliation year.

The allegedly imprudent decision at issue was the decision to retire the Freeburg propane plant in April 2000. Obviously, Illinois Power could not have imprudently incurred replacement pipeline FT costs for the propane plant while the propane plant was still in service, i.e., prior to April 2000. Moreover, in the prior year's (1999) docket, Staff reviewed IP's gas procurement activities for 1999, which would include the 1999-2000 winter season, and "found no reason to dispute IP's assertion that all its gas supply purchases during that period were prudently incurred." (Order in Docket 99-0477 (May 23, 2001), p. 4) The Commission in that case found that IP acted prudently in its purchasing during calendar year 1999. (Id., p. 5)

Accordingly, Staff's exception to the PO's quantification of the amount of the cost disallowance resulting from the decision to retire the Freeburg propane plant in April 2000 must be rejected.

II. THE PROPOSED ORDER CORRECTLY FINDS THAT IP'S DECISION TO RETIRE THE GILLESPIE STORAGE FIELD WAS PRUDENT

Another issue raised by Staff in this case was whether Illinois Power's decision to retire its Gillespie Storage Field was imprudent. The PO concludes that this decision was not imprudent. Staff takes exception to this conclusion, primarily on the grounds that IP did not conduct a present value of future revenue requirements ("PVRR") analysis at the time of the decision – even though the PVRR analyses presented in this docket show a PVRR advantage to retiring the Gillespie Storage Field. Staff's exception must be

rejected. In addition, the disallowance amount that Staff proposes for the allegedly imprudent retirement of the Gillespie Storage Field is overstated.

A. Retirement of the Gillespie Storage Field Was Prudent

IP retired the Gillespie Field because significant capital expenditures, in relation to the size and use of the Field, would have been required to renovate and upgrade equipment at the Field in order to continue to use it. (Rev. IP Ex. 3.2, p. 6) The Gillespie Field was placed in service in 1958. (IP Ex. 3.6, p. 19) It was by far IP's smallest storage field, with a capacity of only about 32,000 MMBtu versus about 143,000 for the next smallest of IP's seven other storage fields.[2] It held only about 6 days inventory, and therefore typically was used only as a peaking facility on the most severely cold days. (Rev. IP Ex. 3.2, pp. 6-7)

In order to continue to operate the Gillespie Field, capital expenditures were needed to renovate the control systems and the auxiliary systems for the compressor station at the Field. (Id., p. 7) In addition to the cost of the renovations needed for the Gillespie compressor, IP took into account operational concerns with the Gillespie Field in deciding to retire it. Specifically, in order to withdraw gas from this Field, it was necessary to reduce pressure in the distribution system in the surrounding geographic area. This practice created concerns for system integrity, because if the storage field compressor tripped off line, there was a risk that service (gas flow) to distribution customers in the area would be lost. (Rev. IP Ex. 3.2, p. 6) Although IP had the capability to monitor system pressures remotely, if the Gillespie compressor station were to fail or trip off line, the operators could not raise the pressure in the surrounding

[2] In addition to its seven operating storage fields, IP in 2000 leased storage services from a total of four interstate pipelines. (IP Ex. 3.1, p. 7)

distribution system quickly enough to prevent service outages. (IP Ex. 3.6, p. 21) Moreover, the service consequences of any adverse external events affecting the distribution system (such as damage to a line by a contractor) would be exacerbated due to the fact that the system was operating at reduced pressure. (Id.) This operational issue was not a concern when the Gillespie Field was developed, since at that time there was only limited development in the area of the Field (Rev. IP Ex. 3.2, p. 7), and thus only a limited distribution system. However, it had become a matter of increasing concern over the years as the area around the Field became more developed. (Id.)

Staff apparently believes that a utility should be found to be imprudent simply for failing to conduct a PVRR analysis at the time of a capital expenditure decision, even if a study conducted later using the same assumptions that would have been employed at the time of the decision shows a PVRR advantage for the action that was taken. (See Staff BOE, pp. 4-5) There is no basis for such a standard. Indeed, the Commission orders discussed in §II.A of IP's Brief on Exceptions do not indicate a need for a PVRR analysis in making a capital expenditure decision of the magnitude involved at Gillespie. The capital investment that would have been required in 2000 to continue to operate the Gillespie Field was at least $500,000 less than the capital investment that would have been required in 2000 in order to continue to operate the Freeburg facility (i.e., $1,320,494, see PO, p. 21, vs. $1,873,000, see PO p. 9)

The PO concludes that a PVRR analysis was warranted with respect to the retirement of the Gillespie Field (PO, §IV.C.4), a conclusion with which IP disagrees. However, the PO also concludes that the most reasonable PVRR analyses in the record show a PVRR savings of $141,087 for retirement of the Field over 30 years and a

$425,760 PVRR savings for retirement of the Field over 15 years.[3] (Id.) Staff does not contest these results.[4] Instead, Staff complains that because the storage field had been retired and much of the equipment dismantled, Staff was precluded from developing an independent estimate of the required cost to upgrade the facility. (Staff BOE, p. 4) During the course of the case, however, Staff did not dispute Illinois Power's position that it was the compressor station at the Gillespie Field that required upgrading and renovation. Thus, contrary to the impression Staff seeks to create in its brief on exceptions, exactly what equipment needed replacement or rehabilitation is not at issue.

Staff did dispute, during the course of this case, IP's estimate of the cost to renovate the compressor station at the Gillespie Field. In evaluating whether to retire the Gillespie field, IP used a cost estimate for the work required on the compressor station of $1,020,000, based on the cost to make similar upgrades to the South Shanghai

[3] Staff characterizes these PVRR results as a "break-even" proposition. (Staff BOE, p. 4) Illinois Power notes that the PVRR advantage for retirement in the 15-year scenario is approximately 17% ($425,760 PVRR savings to retire vs. $2,529,156 PVRR to continue operation). Although the 30-year analyses show a smaller PVRR savings for retirement than does the 15-year analysis, it would be unreasonable to decide to make the capital investment needed to continue to operate a 42-year old facility such as Gillespie based on a study that showed there would not be savings from continued operation until more than 30 years into the future.

[4] The PVRR results which the PO finds to be the "most reasonable" used several assumptions different from those IP believes are the most reasonable, and which would if used lead to a larger PVRR savings for retirement. For example, IP believes that the cost of the capital improvements needed at Gillespie are higher than the estimate used in the PVRR analyses found "most reasonable" by the PO. Further, the PVRR analyses found to be "most reasonable" by the PO assumed that O&M costs for this 42-year old facility would grow only at the general rate of inflation, whereas IP believes that O&M costs would grow at a higher rate due the age of the equipment at the Field. In addition, the PVRR analyses found "most reasonable" by the PO assumed that pipeline FT capacity to replace the capacity of the Gillespie Field would need to be obtained on a year-round basis, when in fact such replacement pipeline FT capacity would only be needed for the five winter season months. If these more appropriate and supportable assumptions were used, the PVRR advantage for retirement of the Gillespie Field would be even more pronounced. (See IP Init. Br., pp. 18-20)

compressor station at the Shanghai Storage Field in 1995. When retirement of the Gillespie Field became an issue in this case, IP reviewed the work orders for the South Shanghai compressor station renovations and determined that the total cost of that work had in fact been $1,199,000. Further, IP determined that, based on a modest escalation rate of 1.62% per year, the cost to do the same work done in 2000 as was done in 1995 would be $1,320,494.[5] (See PO, p. 23; IP Init. Br., p. 16) Use of the costs that had been incurred to renovate the South Shanghai compressor station was reasonable because the renovations needed at Gillespie required the same type of work on the same type of equipment.[6] (See PO, p. 23) The PVRR analyses that the PO finds to be "most reasonable" used the middle value for the renovation costs of the three estimates in the record, $1,199,000. (Id., p. 29) The PO expressly finds that "Based on the evidence, the Commission concludes that $1,199,000 is a reasonable estimate of the cost of the capital expenditures required at the Gillespie storage field." (Id.) This conclusion was fully supported by the record.

Staff also contests the validity of IP's operational concerns arising from the pressure differential between the Gillespie Field and the surrounding distribution system, contending that these concerns had not been an issue during the previous 42 years. (Staff BOE, p. 5) As noted above, however, the operational issue had not been a concern when the Gillespie Field was first opened, due to the limited development (and thus limited distribution system) in the area of the Field; but it had become an increasing concern over

[5] As Staff points out at page 9 of its BOE, the escalation rate used by IP is incorrectly reported in the PO as 1.32%.

[6] In fact, the work required on the Gillespie compressor station may have been more extensive, and therefore more costly, than the work that was performed on the South Shanghai compressor station. (IP Ex. 3.6, p. 18)

the years as the area around the Field became more developed. Staff also asserts that the risk of contractor damage to the surrounding distribution system which could (due to the pressure differential between the Field and the distribution system) result in a service interruption to customers in the area was minimal on a severely cold day. (Staff BOE, p. 5) However, the possibility of contractor damage to the distribution system at the same time that gas was being withdrawn from Gillespie was only given as an example of an incident that could (due to the pressure differential) result in a loss of service to the surrounding area. Further, it is precisely on a severely cold day when the impacts of such an incident on customers would be the greatest.

In any event, the PO does not conclude that the decision to retire the Gillespie Field was prudent based solely on the operational concerns. Rather, the PO bases its conclusion on both the operational concerns and on the PVRR results that the PO finds to be "most reasonable." The PO's conclusions are fully supported by the record.

B. <u>Staff's Disallowance Amount is Overstated</u>

Staff's proposed language revisions to the PO would impose a disallowance of $441,678 relating to the retirement of the Gillespie Storage Field. (Staff BOE, p. 7) Assuming the retirement of the Gillespie Field were found to be imprudent, Staff's proposed disallowance of $441,678 would be excessive. Staff's $441,678 disallowance amount consists of $318,250 for replacement pipeline FT capacity, $6,100 for firm gas supply reservation, and $117,328 for additional gas commodity costs which IP purportedly incurred during the period December 17-22, 2000 as a result of not having Gillespie available for withdrawals of gas to serve system load. (Staff Ex. 2.0, pp. 12-14 and Sched. 2.0-3.0) Assuming there were to be a disallowance imposed with respect to

the Gillespie retirement, IP does not dispute inclusion of components for the costs of replacement pipeline FT capacity and for the costs of replacement firm gas supply reservation. However, there should be no disallowance component for excess gas costs incurred during the period December 17-22, 2001, because, based on conditions during that period, Illinois Power would not have withdrawn gas from the Gillespie Field to serve system load.

The commodity cost component of Staff's proposed disallowance is based on the assumptions that (1) IP would have operated Gillespie in a manner similar to its next largest storage field, Centralia, and (2) IP would have needed to withdraw gas from Gillespie during the December 17-22 period because the Hillsboro Storage Field was out of service at that time due to an explosion. (Staff Ex. 2.0, pp. 13-14; Staff Ex. 4.0, p. 17) As IP witness Frank Starbody explained, however, it would not have been IP's usual practice to make withdrawals from the Gillespie Field this early in the heating season, and conditions during the December 17-22 period were such that IP would not in fact have needed to withdraw from Gillespie, even with the Hillsboro Field out of service:

- IP uses its storage inventories to mitigate impacts of high winter season spot gas prices, consistent with maintaining assurances of reliable supply for the entire winter season. Since the potential peak day coverage period extends into February, limitations are placed on storage withdrawals early in the winter season to ensure deliverability throughout the potential peak day coverage period – IP coordinates operations at its storage fields to ensure adequate aggregate inventories and withdrawability to serve demand throughout the entire heating season. (IP Ex. 3.1, p. 7; Rev. IP Ex. 3.2, p. 9)

- Due to abnormally cold weather that had already occurred in November and December, and high commodity gas prices, IP's storage inventories were being depleted faster than anticipated. IP had already been withdrawing gas from storage fields to the extent deemed not critical to maintaining peak day coverage reliability and the physical and contractual limitations of the fields. (IP Ex. 3.1, p. 7; Rev. IP Ex. 3.2, p. 9)

- ✍✍ The Gillespie Field in particular, due to its small size (only 6 days' supply), was not normally used for withdrawals as early in the heating season as the December 17-22 period unless absolutely needed. (Rev. IP Ex. 3.2, pp. 9-10)

- ✍✍ During the December 17-22 period, there were not any severely cold days of the type that would have been likely to result in withdrawals from the Gillespie Field. On December 21, the peak day for that period, the total non-transportation load on IP's system was only about 78% of that expected on a design peak day. The loads on December 17-20 and 22 were even less. (Rev. IP Ex. 3.2, p. 10; IP Ex. 3.6, p. 22)

- ✍✍ During the December 17-22 period, IP was not close to full utilization of its storage field deliverabilities. On December 17-21, utilization of the storage fields ranged from 31% to 54% of their aggregate rated deliverabilities, excluding in this calculation the deliverability of the Hillsboro Field, which was out of service. On December 22, when Hillsboro returned to service at 65% deliverability, IP utilized only 33% of the aggregate rated deliverabilities of its storage fields. (IP Ex. 3.6, p. 22)

In summary, during the December 17-22 period, Illinois Power had available capacity in both its supply portfolio in general and its storage portfolio in particular, and would not have needed to withdraw gas from Gillespie. Under the conditions prevailing during that period, IP would have continued to conserve the inventory in the Gillespie Field for use later in the season. (Id., pp. 22, 23) The commodity component of Staff's proposed disallowance is unfounded, speculative, and does not represent costs actually incurred by IP in 2000 that would not have been incurred had the Gillespie Field still been available. Accordingly, if there is any cost disallowance relating to the Gillespie Storage Field retirement (which there should not be), it should not exceed $325,000 (i.e., $442,000 minus $117,000).

III. **TYPOGRAPHICAL ERRORS IDENTIFIED BY STAFF**

Illinois Power agrees with the typographical errors in the PO identified by Staff at pages 8-9 of its BOE, with the exception of the purported error at page 14, second

paragraph, ninth line of the PO, where Staff proposes deleting "20%". The full sentence in the PO reads: "IP indicates that its $588,126 estimate was based on the current tariffed FT rate premium on Natural Gas Pipeline Company for FT reservation in the winter months over the summer months, 20%." The PO cites IP Reply Brief at 11-12 for this statement. This is in fact an accurate recitation from IP's Reply Brief at page 12, wherein Mr. Starbody's testimony on this topic is discussed. His testimony (IP Ex. 3.6, p. 5) shows the NGPL winter rate is $12.04 per MMBtu/day and the summer rate is $10.02 per MMBtu/day.

IV. CONCLUSION

For the reasons stated herein, Staff's exceptions to the Proposed Order should be rejected. For the reasons set forth in Illinois Power's Brief on Exceptions, the Proposed Order should be modified in accordance with the exceptions and arguments set forth in IP's Brief on Exceptions, and as so modified, should be adopted by the Commission as the final Order in this docket.

Respectfully submitted,

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